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FM AMEMBASSY MOSCOW
TO RUEHC/SECSTATE WASHDC PRIORITY 5107
INFO RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
RHEHNSC/NSC WASHDC PRIORITY

UNCLAS MOSCOW 005310

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STATE PASS TO USTR FOR VERONEAU AND HAFNER

E.O. 12958: N/A
TAGS: [EINV](#) [ETRD](#) [ECON](#) [WTO](#) [RS](#)
SUBJECT: D/USTR JOHN VERONEAU IN MOSCOW

REF: MOSCOW 5210

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¶1. (U) Summary: While in Moscow to attend the U.S.-Russia Business Council Annual Meeting, D/USTR John Veroneau met with industry leaders, engaged with experts at the Carnegie Center and had discussion with counterparts at the Ministry of Economic Development and Trade (MEDT) and the Finance Ministry (MinFin) on topics ranging from WTO to a Bilateral Investment Treaty. End Summary.

¶2. (U) Deputy U.S. Trade Representative Ambassador John K. Veroneau visited Moscow October 22-24 to participate in the 15th Annual Meeting of the U.S.-Russia Business Council (USRBC) and deliver the keynote closing address. Betsy Hafner, director of the office for Europe and Eurasia at USTR, accompanied him. In his speech to the Council on October 24, D/USTR Veroneau addressed the importance of economic openness, rule of law, and transparency in fostering long-term economic growth. He also underlined U.S. support for Russia's WTO accession and the importance of the U.S.-Russia trade and investment agenda. Toward that end, D/USTR Veroneau suggested that the United States and Russia consider negotiating a Bilateral Investment Treaty (BIT).

Taking Industry's Pulse

¶3. (SBU) During pull asides at the two day USRBC meeting and at official representational events, D/USTR Veroneau heard from industry leaders about the rewards and challenges of doing business in Russia and discussed specific concerns companies face. Separately, the American Chamber of Commerce hosted a roundtable breakfast that provided an opportunity for a wide-ranging discussion on the business climate in Russia. Executives from the software, pharmaceutical and insurance sectors briefed the D/USTR on company plans and shared their viewpoints on how to achieve success here. They supported WTO accession, citing the benefits of membership in a rules-based organization for international firms trading and investing in Russia. They candidly described the problems the face dealing with corruption and excessive bureaucracy.

Whither Russia - Think Tank Views

14. (SBU) The Carnegie Moscow Center (Carnegie Endowment for International Peace) also hosted an in-house roundtable discussion organized and moderated by Senior Associate Dmitri Tenin. Discussion ranged across the broad expanse of Russian history, language, culture economic, social, and political issues. In line with business viewpoints, participants identified corruption and related bureaucratic red-tape as the most serious problems. On the political front, they agreed that President Putin is determined not to be a lame duck and delights in keeping people guessing what his next move may be. Overall, they expressed optimism about Russia's future, pointing to a gradually emerging middle class with its ability to travel outside the country and the power of global communication to keep information flowing.

Bilateral Investment Treaty

15. (U) Speaking at the USRBC on October 23, Trade Minister Elvira Nabiullina told U.S. and Russian companies that she supported negotiating a BIT, noting that the United States was one of the few major economies with which Russia does not have such an agreement and expressing hope that one would be completed soon.

16. (SBU) In meetings with Deputy Finance Minister Sergey Shatalov and Deputy Trade Minister Kirill Androsov, D/USTR Veroneau raised the U.S. interest in negotiating a BIT with Russia (RefTel). (Note: a previous BIT was signed in 1993, but never ratified by the Duma.) Shatalov and Androsov indicated that a BIT would be attractive to investors from both countries. Shatalov said that the old model BITS were no longer applicable since they did not reflect changes in the Russian economy over the past decade. MEDT, not MinFin would be the lead negotiator on a BIT, he said, but MinFin would also participate. Shatalov predicted that other ministries would support BIT negotiations, but also underscored that concluding the WTO accession was the top priority.

CIFUS and Russia's Strategic Sectors Law

17. (SBU) Meeting with MEDT Deputy Minister Androsov, D/USTR Veroneau described the Committee on Foreign Investments in the United States (CFIUS) as legislation intended to protect national security interests while ensuring that the United States remained open to foreign investors. He stressed that it was not a protectionist economic measure and explained the law was designed to make the process more formal and transparent. He added that only a small percentage of foreign investment were ever reviewed on national security grounds and few were actually rejected.

18. (SBU) Androsov responded that the draft Strategic Sectors Law is intended to fulfill the same function. It would clarify for foreign investors those areas where GOR permission would be required to establish majority control of a Russian company. He stressed that Russia would remain open to foreign investors needed to help the country diversify its economy. He noted that 60 percent of the GOR's budget was the result of taxes on the oil and gas sectors and said that reducing this dependency would be the new government's number one economic objective.

Concerns about Russia's Accounting and Control System

19. (SBU) D/USTR Veroneau raised in the meeting with Deputy Finance Minister Shatalov U.S. business concerns at the possible expansion of Russia's accounting and control system (EGAIS/UFAIS) -- covering import, export and distribution of products -- to other products in addition to alcoholic beverages. According to Shatalov, the introduction of customs stamps on alcohol was flawed: measures were not

completely considered and implementation was mismanaged, as evidenced by the inadequate supply of stamps. He said that domestic producers were particularly affected by the changes and that production fell dramatically and still remains below late 2005 levels. He assured Veroneau that should the system be extended to other products, implementation would be much smoother and non-discriminatory.

¶10. (SBU) Following up on this issue, Director Hafner held separate meetings with GOR officials and raised concerns about the discriminatory application of the EGAIS/UFAIS system to imported spirits as well as its expansion to new products. She also raised concerns about the GOR's continued unwillingness to share draft orders implementing our bilateral agreement on the importation of products with encryption technology. MEDT advisor Yuriy Lyubimov expressed his optimism about WTO accession and described on-going discussions with the drafters of Part IV of the Russian Civil Code. Vladimir Loginov, MEDT's head of the Department of Non-Tariff Regulations, said the GOR would resolve remaining issues related to encryption and alcohol. Hafner also met with local representatives of the spirits, cosmetics and technology industries who raised their specific, detailed concerns with her.

¶11. (U) D/USTR Ambassador John K. Veroneau has cleared this cable.
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